

Military Utilities Privatization: The Utility Perspective

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What is Privatization?

- Transfer of ownership, operations and maintenance and improvement of utility plants and systems to municipal, private, local or regional utility companies
- Not kWh Sales
- Not Energy Efficiency



Statutes and Regulations

- 10 United States Code 2688
- Defense Reform Initiative Directives (DRID)
- "Supplemental Guidance?"



What is being privatized?

- Number of Systems = 1,616
- Electric System Size
 - 10 - 350 miles of lines and associated transformers and equipment
 - Utility assets and the Government system are often intertwined
 - Represents 1% to .001% of serving utility's line miles
- Electric System Condition
 - System conditions vary by Service and facility
 - Often old systems in poor condition - not to code
 - Little system information



The Privatization Deal - Two Contracts

- Bill of Sale - The Government sells the Contractor its utility plant and grants a right of way to operate the utility system
- Utility Service Contract - The Contractor provides the Government with electric distribution and metering services, usually for 50 years, which reflect the cost of:
 - Purchase price
 - Initial capital upgrades
 - Ongoing O&M and capital improvements
 - Taxes
 - Overheads and profits
 - Financing costs



Historic Obstacles to Utilities Competing*

- Project bids were required to be bundled
 - One fixed bid for electric, gas, water, wastewater on a base
 - One fixed bid for electric systems at multiple bases
 - One fixed bid for commodity, transportation, DSM for electric, gas, water and wastewater
- Service Standards were inconsistent w/utility operating practices
 - Pole attachment rules
 - Service restoration standards
- Short time to respond to RFPs

* Obstacles vary widely from Service to Service and among bases within a single Service.



Ongoing Obstacles to Utilities Competing

- Government fixed price bid requirement is unrealistic when inadequate information is available to assess or mitigate financial and operating risk
 - System information and due diligence opportunities are often very limited
- RFP's are expensive and time consuming to bid on
 - Often over several hundred thousand dollars per RFP
 - Lack of consistency among RFPs
- Federal cost accounting standards (CAS)



Ongoing Obstacles to Utilities Competing

- System ownership does not generate large profits
- Other corporate priorities
- Regulatory involvement likely
- Risk of losing after investing so much time and money
- Utility ignorance of federal contracting practices



New Privatization Models

- Air Force
- Army
- Navy



The Bottom Line

The *perceived* cost and financial risk of responding to and winning a privatization solicitation often is greater than the *perceived* benefits of winning.

Therefore, utilities may not bid, or they may include significant risk premiums in their bid price, thereby making their bid, or privatization in general, uneconomic.



Regulatory Questions

- If the PSC is preempted from regulating Government electric distribution systems, is it also preempted from regulating kWh sales?
- If the PSC is preempted from regulating government electric distribution systems, is it also preempted from regulating privately owned power plants located on Government bases?
- If a base has significant non-governmental tenants, does the PUC have any jurisdiction over the sale of electricity and wheeling services to those customers?
- If a non-regulated Contractor owns the Government system, what is the PSC's jurisdiction if all or part of the base is closed and sold to private companies or redevelopment organizations?



Regulatory Questions (Continued)

- If the PSC is preempted from regulating government electric distribution systems, to what extent does it still have jurisdiction over a regulated utility's actions if the regulated utility is chosen by the Government to own and operate the system?
- What happens to the utility-owned portion of electric distribution systems located on Government facilities if the Government's electric system is sold to a non-utility?
 - How will issues of safety, service restoration and reliability be resolved?



Regulatory Questions (Continued)

- If a regulated utility takes ownership of the Government electric distribution system, should separately metered buildings be charged secondary rather than primary service rates?
 - Is the answer different if the system is owned by a non-regulated Contractor?
- What happens if a non-regulated contractor defaults?
- How will housing privatization impact electric distribution system privatization, existing utility infrastructure and PSC jurisdiction?



Conclusions

- Military utility privatization is accelerating
- Most State PUCs will be impacted
- Complex and uncertain regulatory concerns
- No clear answers
- No one-size-fits-all
- Privatization and energy efficiency folks are the same people



Conclusions

- If utilities are to truly be a competitive option for the Government:
 - Reduce bidding costs
 - Reduce risks
 - Structure RFPs consistent with its existing operating practices
- Critical issues relating to rates, reliability and safety need to be resolved re: the local utility

